UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF RHODE ISLAND

ASTRO-MED, INC.,

Plaintiff,

v.

KEVIN PLANT; NIHON KOHDEN AMERICA, INC.

Defendants.

C.A. No. 06-533-ML

DEFENDANTS' MOTION FOR JUDGMENT AS A MATTER OF LAW

Defendants Nihon Kohden America, Inc. ("Nihon Kohden") and Kevin Plant, through counsel, hereby submits their Motion Judgment as a Matter of Law requesting that this Court enter judgment in Defendants' favor on each of Plaintiff's claims.

NIHON KOHDEN AMERICA, INC. AND KEVIN PLANT

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DATED: April 2, 2008

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF RHODE ISLAND

ASTRO-MED, INC., Plaintiff, v. KEVIN PLANT; NIHON KOHDEN AMERICA, INC. Defendants.	C.A. No. 06-533-ML

I. INTRODUCTION

Plaintiff's case has been much ado about nothing. Each of Plaintiff's claims -- breach of contract, misappropriation of trade secrets, unfair competition, and interference with a contractual relationship -- lacked evidentiary and/or legal support.[1] Plaintiff's case is totally reliant on establishing that an unenforceable non-competition provision with Mr. Plant is enforceable. However, Plaintiff's evidence did not surmount that obstacle. Instead, the unenforceable non-competition provision was deemed unenforceable by this Court[2] (and Plaintiff submitted no evidence to support its enforceability), because it unlawfully limited employment options following Mr. Plant's employment with Plaintiff, going so far as to prohibit Mr. Plant from working in his chosen profession in all of North America and Europe.

Thus, Mr. Plant did not breach and Nihon Kohden did not induce Mr. Plant to breach this overly broad employment restriction, *because it was unenforceable as written.* Instead, after this

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[1] Additionally, Nihon Kohden has objected to this Court exercising personal jurisdiction over it. Nihon Kohden has conducted nearly no sales activities in Rhode Island, and none of its communications with Mr. Plant occurred in Rhode Island. Plaintiff has offered no evidence to support a claim of personal jurisdiction.

[2] It remains Defendants' position that the non-competition provision and the entire employment agreement was void based on the fact that Mr. Plant's employment status with Plaintiff materially changed twice after he signed the document containing the non-competition provision.

Court modified and limited the restriction on Mr. Plant's ability to work for a competitor,[3] Plaintiff presented no evidence that either Mr. Plant or Nihon Kohden breached either of the modified restrictions.[4]

II. STATEMENT OF FACTS

Mr. Plant began his employment with Plaintiff in October 2002. At that time, Mr. Plant signed a document entitled "Employee Agreement" (**Exhibit 1** (**Trial Exhibit 3**)). This document contained a non-competition provision stating:

> I recognize that the Company sells its products throughout North America and Europe; as such, upon termination of my employment at the Company, for whatever reason, I shall not directly or indirectly enter into or engage in a business that competes with the Company, **in a territory consisting of North America, and Europe**, either as an individual, partner, joint venturer, employee, agent or salesman for any person, or as an officer, director or stockholder of a corporation or otherwise, for a period of one year thereafter.

Exhibit 1 (**Trial Exhibit 3**), ¶ 4 (emphasis added).

In 2004, Mr. Plant's position with Plaintiff materially changed when he was promoted from his position as a product specialist in Rhode Island to a sales position in Florida. Following Mr. Plant's change of position and move to Florida, no new "Employee Agreement" or non-competition agreement was executed. In 2006, the terms of Mr. Plant's employment with Plaintiff again materially changed when Plaintiff unilaterally decreased Mr. Plant's Southeastern regional sales territory, giving a portion of Mr. Plant's territory to an untrained salesperson. Again, Plaintiff did not require Mr. Plant to execute a new non-competition agreement. Because Plaintiff unilaterally, materially and negatively altered the terms and conditions of his employment, Mr. Plant began to seek new employment and, eventually, was hired by Nihon Kohden.

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[3] It is Mr. Plant's and Nihon Kohden's position that Nihon Kohden is not a direct competitor of Plaintiff, because Nihon Kohden has substantially different equipment and markets to substantially different customer base than does Plaintiff. *See*, *e.g.*, AFC Cable Sys. v. Clisham, 62 F. Supp. 2d 167, 172-73 (D.Mass. 1999) (applying Massachusetts law).

[4] The modified restriction as it existed through December 28, 2007, was originally set forth in this Court's February 16, 2007 Modified Interim Injunction Order. In that order, this Court only limited Mr. Plant from contacting former customers or those on lead lists given to Mr. Plant, or

Even if one were to assume that the non-competition provision -- after two material changes in Mr. Plant's employment status -- remained enforceable, the evidence establishes that, since his current employment with Nihon Kohden began in October 2006, Mr. Plant has neither directly nor indirectly solicited any of Plaintiff's customers with whom he formerly transacted business. Moreover, in a letter dated September 18, 2006 (**Exhibit 2** (**Trial Exhibit B**)), Nihon Kohden specifically prohibited Mr. Plant from using any of Plaintiff's trade secrets or confidential information. Following his express instruction from Nihon Kohden, the evidence establishes that Mr. Plant has made no attempt to divert business from Plaintiff to Nihon Kohden by using or disclosing any information that might be considered proprietary or confidential.

Seeking to enforce the non-competition provision, Plaintiff filed this action in Rhode Island state court against only Mr. Plant. Two weeks after Plaintiff filed its Rhode Island state court action, Mr. Plant sought to resolve the dispute, proposing settlement terms in his counsel's letter to Plaintiff's counsel dated December 19, 2006.[5] Plaintiff ignored the settlement proposal, the terms of which, as it turned out, were *nearly identical* to the language of this Court's February 16, 2007 Modified Interim Injunction Order. Even when this Court agreed with Mr.

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using or disclosing Plaintiff's trade secrets. Plaintiff presented no evidence that Mr. Plant violated either restriction.

Plant's settlement position, Plaintiff continued to prosecute this action, ignoring the opportunity to mitigate its "damages".

III. LEGAL ARGUMENT

A. Grounds Supporting Motion for Judgment as a Matter of Law

Federal Rules of Civil Procedure 50 (a) states:

> Judgment as a Matter of Law.
>
> (1) In General. If a party has been fully heard on an issue during a jury trial and the court finds that a reasonable jury would not have a legally sufficient evidentiary basis to find for the party on that issue, the court may:
>
> (A) resolve the issue against the party; and
>
> (B) grant a motion for judgment as a matter of law against the party on a claim or defense that, under the controlling law, can be maintained or defeated only with a favorable finding on that issue.
>
> (2) Motion. A motion for judgment as a matter of law may be made at any time before the case is submitted to the jury. The motion must specify the judgment sought and the law and facts that entitle the movant to the judgment.

B. Mr. Plant Did Not Breach An Enforceable Non-Competition Provision

Until this Court created terms for the non-competition provision in the Employee Agreement (**Exhibit 1** (**Trial Exhibit 3**)) that were enforceable, the Agreement was not enforceable against Mr. Plant and, thus, Mr. Plant could not have breached the Agreement.

For a restrictive covenant to be held unreasonable (and, thus, unenforceable), it must meet a two-part test set out in Dial Media, Inc. v. Arthur Schiff, 12 F. Supp. 1483, 1488 (R.I. 1985). Quoting the Restatement of Contracts, the Court in Dial Media notes, "a covenant in

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5 A copy of the December 19, 2006 settlement letter, which is a confidential settlement

restraint of trade is unreasonable if it '(a) is greater than is required for the protection of the person for whose benefit the restraint is imposed, or (b) imposes undo hardship upon the person restrained.' *Id.*, 1488.

Using the Dial Media analysis, the court in Merrimack Valley Wood Prods. v. Near, 152 N.H. 192, 196, 876 A.2d 757 (N.H. 2005), stated that the trial court found that the plaintiff-employer's "non-compete covenant was unreasonable because it was too broad." *Then*, the trial court analyzed whether reformation was merited, but did not reform the agreement to make it enforceable. *Id.* The New Hampshire Supreme Court affirmed the trial court's analysis and decision stating, "[b]ecause the restrictive covenant fails the first prong of the reasonableness test [*i.e.*, "whether the restriction is greater than necessary to protect the legitimate interests of the employer"], it is unreasonable, **and therefore unenforceable**." *Id.* (emphasis added). In so stating, the Near court articulated a two-step analysis of non-competition agreements. The first step of the analysis is to determine whether a non-competition agreement is reasonable (*i.e.*, whether it protects the legitimate interests of the employer without being overly broad). If the restriction is overly broad, the agreement is not enforceable. In the instant action, this Court determined that the non-competition provision was overly broad. Therefore, it was not enforceable. The second step of the analysis is to determine whether the non-competition provision may be modified/reformed to make it enforceable.[6]

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communication, is attached hereto as **Exhibit 3 (Trial Exhibit C)**.

[6] By analogy, a contract that is indefinite as to its material terms is unenforceable. *See, e.g.*, Soar v. NFL Players Assn., 438 F. Supp. 337, 343 (D.R.I. 1975) (pension plan contract that does not specify the terms of eligibility or schedule of benefits unenforceable). Similarly, the non-competition in the Employee Agreement, which was drafted by Plaintiff, violated public policy (*e.g.*, overly broad geographic scope) and, thus was unenforceable. However, with regard to non-competition provisions, Rhode Island law permits otherwise unenforceable non-competition agreements to be reformed in equity for the purpose of limiting the non-competition provision to make the unenforceable provision enforceable. *See, e.g.*, Durapin, *surpa*, 559 A.2d at 1058-59.

Thus, a restraint on trade provision is not enforceable *until* the court modifies it to make it enforceable. *See*, *e.g.*, Durapin, Inc. v. American Prods., 559 A.2d 1051, 1057 (R.I. 1989) (unreasonable restraint on trade agreement is not enforceable, but may be modified to make it enforceable). In Hawkins v. Daly, 2003 R.I. Super. LEXIS 14, 14, the court stated that non-competition provisions "will only be enforced when reasonable and where restrictions do not extend beyond what is apparently necessary for the protection of the employer's business." Likewise, because this Court could not enforce the overly broad non-competition provision in the Employee Agreement, Mr. Plant could not breach it, until this Court modified the provision to make it enforceable.

Rhode Island recognizes that an unenforceable restraint on trade (such as a non-competition provision) may be modified by a court to make it enforceable. *See*, *e.g.*, Durapin, *supra*, 559 A.2d at 1058-59. The post-employment restriction in the Employee Agreement purported to prohibit Defendant Plant from working *in all of North America and Europe*. Such an overly broad geographic restriction is unenforceable. *See*, *e.g.*, Dryvit Sys. v. Healy, 1989 R.I. Super. LEXIS 105, 13-15 (holding that, when a restrictive covenant proscribes a geographic restraint covering where the plaintiff conducted business was unenforceable). This Court recognized that the overly broad restriction could not be enforced and, therefore, limited the geographic scope to the State of Florida. And, then, only to a limited amount Plaintiff's existing and potential customers.

The non-competition provision in the Employee Agreement was unenforceable until this Court modified it to make it partially enforceable in its December 28, 2006 Interim Preliminary Injunction Order (and, subsequently, in its February 16, 2007 Modified Interim Injunction Order). By its terms, the original non-competition provision: (i) prohibited Defendant Plant from obtaining employment with any of Plaintiff's competitors;[7] and (ii) prohibited Defendant Plant from working any where in North America or Europe. In fact, this Court stated that "the sheer breadth of geographic limitation contained in the agreement, it seems to me, unless there's a whole lot more that I haven't heard, **I don't think is enforceable under Rhode Island law**."[8]

Due to the Agreement's overreaching scope, this Court was required to substantially modify the non-competition provision to make it enforceable by allowing Defendant Plant to work for Nihon Kohden and limiting Mr. Plant's business activities in *only* the State of Florida by restricting Mr. Plant from contacting his former customers or customer leads. *See* February 16 Order (**Exhibit 4**).

Defendant Plant could not have breached the original non-competition restriction because (as this Court ruled by substantially modifying the restriction) it was unenforceable. Moreover, Defendant Plant complied with the work restriction set forth in the December 28 Order (and subsequent injunction orders of this Court) and, thus, did not breach any non-competition obligation owed to Plaintiff. And Plaintiff presented no evidence that would allow the trier of fact to find otherwise.

C. The Non-Competition Agreement Is Unenforceable

1. Material Changes In Mr. Plant's Employment Status With Plaintiff Voided The Non-Competition Restriction

When there is a material change in the employment relationship, prior employment agreements, including non-competition agreements, are voided. *See*, *e.g.*, AFC Cable Sys. v. Clisham, 62 F. Supp. 2d 167, 172-73 (D.Mass. 1999) (applying Massachusetts law). In Clisham, the defendant's former employer sought to enforce a 1992 non-competition agreement against the defendant when the defendant left his position to work for a competitor. *Id.*, at 170. However, the defendant's position with the plaintiff had changed in 1994 when he was promoted from Sales Consultant to Sales Manager. *Id.* **The Clisham court stated that the change in the defendant's employment relationship with the plaintiff "[made] it clear that [the defendant] entered a new relationship with [the plaintiff], thereby voiding the 1992 [Non-Competition] Agreement."** *Id.*, at 173 (emphasis added).

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[7] A prohibition of working for competitors is an unreasonable geographic restriction. *See*, *e.g.*, Dryvit Sys., *supra*, 1989 R.I. Super. LEXIS at 14, n.3.

[8] December 28, 2006 Transcript, 27:12-16 (**Exhibit 5**) (emphasis added).

During the course of Mr. Plant's employment with Plaintiff, the evidence establishes that there were *two* fundamental changes in his employment status, both of which occurred after he executed the Employee Agreement. First, in 2004, Mr. Plant's position materially changed, from "Product Specialist" in Rhode Island (his position at the time of his hire in 2002), to a salesperson position in Florida.[9] The Employee Agreement *may* have arguably covered Mr. Plant's position as a Product Specialist, but by its express terms did not apply to salespersons. In this regard, the introductory paragraph of the Employee Agreement states that the agreement applies to only those individuals who are involved in the "design, development or manufacture of products for the Company."

Moreover, in June 2006, Plaintiff again substantially and unilaterally changed Mr. Plant's employment relationship, when it cut a significant portion of his sales territory – and, thus, his earning potential -- and assigned it to another, untrained salesperson. As a result of these material changes in Mr. Plant's employment with Plaintiff, the non-competition provision in the Employee Agreement is void and unenforceable against Mr. Plant.

[9] As Mr. Plant testified, the differences in these two positions (beyond Mr. Plant being required to move from Rhode Island to Florida) are extensive. As a Product Specialist, Mr. Plant was mainly responsible for working directly with Plaintiff's sales force to answer questions regarding Plaintiff's products. As a salesperson, Mr. Plant was responsible for calling on potential and existing customers and conducting follow-up calls after sales.

2. Plaintiff's Breach Of The Employee Agreement Voided Any Obligations Mr. Plant Had Pursuant To The Agreement

Plaintiff's substantial reduction of Mr. Plant's sales territory breached the Employee Agreement and directly led to Mr. Plant leaving Plaintiff's employment.

In Lantor, Inc. v. Ellis 1998 Mass. Super. LEXIS 560, the defendant executed a non-competition agreement while employed as a salesperson by the plaintiff. Thereafter, the plaintiff unilaterally changed the defendant's sales commission compensation. *Id.*, at 5. Denying the plaintiff's motion for a preliminary injunction, the Lantor court stated, "'It is well established that a material breach by one party excuses the other party from further performance under the contract.' [Citation.] **It is also plain that a material breach of an employment agreement by an employer may discharge an employee from further obligation under a non-competition provision of that agreement.** [Citation.]" *Id.*, at 23 (emphasis added).

In Dialogo, LLC v. Bauza, 456 F. Supp. 2d 219, 226 fn. 4 (D.Mass. 2006), the plaintiff sought to enforce a non-competition provision against the defendant, its former employee, who had left to work for a competitor. The defendant claimed that the plaintiff failed to fully compensate him for his employment, which was an obligation separate from the non-competition agreement that the defendant executed. *Id.*, at 223. Granting the defendant's motion for summary judgment, the Dialogo court, citing Lantor, stated, **"Accordingly, [the plaintiff]'s material breach of [the defendant]'s employment agreement excuses [the defendant] from any obligation to refrain from competition."** *Id.*, at 226 fn. 4 (emphasis added).

Plaintiff's 2006 unilateral and drastic reduction in Mr. Plant's sales territory was a material breach of Mr. Plant's employment relationship with Plaintiff. This breach, thus, excuses Mr. Plant from any contractual obligation he *may* have had to refrain from competition.

3. The Non-Competition Agreement Is Unenforceable Because It Does Not Protect A Legitimate Business Interests

The elements that must be established by a party seeking to enforce a non-competition provision are:

(1) the non-compete clause is an ancillary provision to a valid transaction or relationship, such as an employment contract;

(2) the non-compete provision is independently supported by adequate consideration; and

(3) a legitimate business interest exists that the non-compete provision is designed to protect.

Durapin, *surpa*, 559 A.2d at 1053. Plaintiff's evidence does not support the last prong of the test.

"Protection of confidential information and goodwill" are the only legitimate interests the moving party may establish by the evidence. Nestle Food Co. v. Miller, 836 F. Supp. 69, 75 (D.R.I. 1993). The former employer's mere desire to be free from competition, by itself, is not a "protectable interest." *Id.*, 836 F. Supp. at 75, n.19. An example of a protectable interest is specialized training provided by an employer to teach an employee to perform special tasks or peculiar services. Dial Media, Inc. v. Schiff, 612 F. Supp. 1483, 1489 (D.R.I. 1985). Denying the plaintiff-former employer's motion for a preliminary injunction, the Dial court stated:

> Plaintiff has not demonstrated that Defendant gained any unfair competitive advantage due to his former employment at Dial Media, any more than a stranger would have, who had [the defendant]'s background and experience. **Since an employee is entitled to use general knowledge and expertise learned during his employment to continue his livelihood, Plaintiff has no interest in Defendant's future productivity to protect.**

Id., at 1491, fn. 5 (emphasis added). Accordingly, Plaintiff failed to introduce sufficient evidence that its non-compete provision (which was deemed unenforceable by this Court) was designed to safeguard a protectable interest, such as the protection of confidential information or to safeguard investments in employee specialized training.

D. Plaintiff Failed To Mitigate Its Damages

On December 19, 2006, well before this Court determined to impose, through December 28, 2007, reformed non-competition restrictions on Mr. Plant's employment (while still permitting him to work for Nihon Kohden), Mr. Plant offered to settle this action under terms nearly identical to those set forth in February 16 Order.[10] However, Plaintiff did not respond to the December 19 settlement offer, as well as other settlement overtures, and since that time has incurred no damages other than attorneys' fees in prosecuting its action against Mr. Plant and Nihon Kohden. Thus, Plaintiff has failed to take affirmative steps to minimize or otherwise to mitigate its alleged damages.

In Reyes v. Banco Santander de P.R., N.A., 583 F. Supp. 1444 (D.P.R. 1984), the defendant made multiple settlement offers, all of which the plaintiff rejected. *Id.*, at 1445-46. The defendant went to trial asserting defenses that included the failure to mitigate damages. *Id.*, at 1446. At trial, the plaintiffs prevailed at trial on their claims and received a net jury award that was nearly identical to the defendant's highest settlement offer. *Id.*, at 1445. However, because the plaintiff's failed to mitigate their damages by accepting the defendant's early settlement offers, the Reyes court denied the plaintiff's motion for attorney fees. *Id.*, at 1447.

E. There Was No Evidence Of Trade Secret Misappropriation

Plaintiff presented no evidence supporting its claim that Mr. Plant has used or disclosed any of Plaintiff's trade secret or confidential information since Mr. Plant terminated his employment with Plaintiff.

To establish a misappropriate of trade secret claim, a plaintiff "***must show*** that he or she shared a confidential relationship with the defendant, possessed a trade secret, disclosed it to the defendant, ***and that the defendant made use of the disclosure in breach of the confidence reposed in him***. [Citations.]" Burten v. Milton Bradley Co., 763 F.2d 461, 463 (1st Cir. 1985)

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[10] Mr. Plant's counsel's letter dated December 19, 2006 (**Exhibit 3** (**Trial Exhibit C**)).

(emphasis added). However, Plaintiff's witnesses testified that Plaintiff has no evidence that Mr. Plant made use of or disclosed any of Plaintiff's trade secret.[11]

To establish a claim for misappropriation of trade secrets, the claimant must show which is set forth in Burten v. Milton Bradley Co., 763 F.2d 461, 463 (1st Cir. 1985). In Burten, the First Circuit Court stated: "In order to successfully establish a cause of action for misappropriation … a plaintiff must show that he or she shared a confidential relationship with the defendant, possessed a trade secret, disclosed it to the defendant, ***and that the defendant made use of the disclosure in breach of the confidence reposed in him***. [Citations.]" Emphasis added. In Dial Media, *supra*, 612 F. Supp. at 1489, because the court found that the plaintiff had not established that its former employee "used trade secrets to acquire an unfair advantage to Dial Media's detriment," it denied the plaintiff's motion for a preliminary injunction. Explaining its holding, the Dial Media court stated:

> [T]he only interest which Plaintiff could assert is the desire to be free of competition from its former employee, who had engaged in the activity which Plaintiff seeks to prohibit before coming to work for Dial Media. **This interest is not a protectable one since in the absence of trade secret abuse, misappropriation of good will, or other damage Plaintiff is simply attempting to restrain competition which is in this instance an unreasonable restraint on trade.**

Id. (emphasis added; citation omitted).

Because Plaintiff has admitted that it has no evidence that Mr. Plant has used or disclosed any of Plaintiff's trade secret or confidential information, it is "simply attempting to restrain competition."

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11 *Id.*

IV. CONCLUSION

Plaintiff cannot, as a matter of law, enforce a non-competition provision that was determined by this Court to be overly broad and unenforceable. Moreover, Plaintiff has presented no evidence supporting any of its claims. Plaintiff's testimony fails to show:

(i) Any use or disclosure of Plaintiff's confidential information by Mr. Plant;

(ii) Any use or disclosure of Plaintiff's confidential information (as learned though Mr. Plant) by Nihon Kohden;

(iii) Any use or disclosure of Plaintiff's trade secrets by Mr. Plant;

(iv) Any use or disclosure of Plaintiff's trade secrets (as learned though Mr. Plant) by Nihon Kohden;

(v) Any breach of this Court's injunction orders; or

(vi) Any breach of any enforceable provision of the Employee Agreement.

Thus, Defendants are entitle to an order entering judgment in their favor and against Plaintiff on each of Plaintiff's claims.

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